



The Law Society  
of Upper Canada

Barreau du  
Haut-Canada

# 2016

ANNUAL REPORT

## 2016 Financial Statements

# **THE LAW SOCIETY OF UPPER CANADA**

## **2016 ANNUAL REPORT**

# **Financial Statements**

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# THE LAW SOCIETY OF UPPER CANADA

## ANNUAL FINANCIAL STATEMENTS

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Summary of Financial Performance

The Law Society of Upper Canada's ("The Society") lawyer and paralegal General Funds, which account for the Society's program delivery and administrative activities, are reporting a combined operating surplus of \$3.8 million (2015 - \$2.3 million). The 2016 budget included the allocation of \$1.2 million to the Lawyer General Fund from the accumulated surplus investment income in the Errors & Omissions Insurance Fund ("the E&O Fund") but this transfer was not required. The 2016 budget also projected a deficit in the Paralegal General Fund of \$362,000 with the use of the accumulated balance, so operating results are better than budgeted. With the exception of a nominal negative variance in Annual Fees, all the major revenue categories exceeded budget. All the major expense categories were either very close to, or were less than budget. In comparing 2016 results to 2015 results, the size and nature of operations were substantially similar.

The Society's restricted funds are reporting a combined deficit of \$2.7 million in 2016 (2015 - \$6.1 million deficit). The primary factors in the performance of the restricted funds are:

- The Lawyer Compensation Fund experienced an adverse claims experience, resulting in a deficit of \$2.1 million (2015 - \$713,000 deficit).
- The Errors & Omissions Insurance Fund is reporting a surplus of \$1.2 million (2015 - \$2.5 million deficit). In 2015, the E&O Fund had provided a \$2.5 million premium contribution to reduce the lawyer's base insurance premium which was not repeated in 2016.
- The Capital Allocation Fund experienced a surplus of \$1.4 million (2015 - \$1.1 million) dependant on the capitalization of projects during the year.
- Amortization in the Invested in Capital and Intangible Assets Fund of \$3.1 million (2015 - \$3.7 million) was the significant contributor to the restricted funds deficit in the current year.

#### Statement of Revenues and Expenses and Change in Fund Balances

##### Revenues

###### *Annual Fees*

Total annual fee revenues have increased to \$77.7 million (2015 - \$75.6 million) due to an increase in the number of licensees billed with the number of paralegals in particular rising in percentage terms. There were fluctuations in the individual fee components but the total annual fee per lawyer and paralegal was the same as 2015.

###### *Insurance Premiums and Levies*

The Errors & Omissions Insurance Fund accounts for insurance related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers and remits these amounts to LAWPRO. Insurance premiums and levies decreased to \$110.6 million in 2016 (2015 - \$113.1 million) with a reduction in transaction levies. The base premium for professional liability insurance coverage for Ontario

lawyers was \$3,350 per lawyer, the same premium charged in 2015. The professional liability insurance program was essentially the same, year on year.

#### *Professional Development & Competence ("PD&C")*

PD&C revenue comprises licensing process and continuing professional development revenue. Total PD&C revenues are in line with the previous year at \$21.7 million (2015 - \$21.4 million).

- Licensing Process revenues from lawyer (\$11.2 million) and paralegal candidates (\$2 million) have increased to a total of \$13.2 million (2015 - \$12.9 million), in excess of budget. The underlying tuition fees charged to candidates did not change. The annual revenues from candidates comes from all active candidates in the system, some of whom will be from a previous licensing year whose related activities, such as exam rewrites, have increased. The three year pilot Law Practice Program (LPP) which commenced in the fall of 2014, providing lawyer licensing candidates the option of either articling or completing the LPP has been extended by Convocation for two additional licensing years. A comparison of candidate numbers is set out below:

	2016	2015
Candidate Registrants		
Lawyer	2,302	2,336
Paralegal	1,360	1,450
Candidates Licensed		
Lawyer	2,188	2,201
Paralegal	994	1,372

- Continuing Professional Development ("CPD") revenues from lawyers (\$7.5 million) and paralegals (\$977,000) is the same as 2015 at \$8.5 million, and equalled budget. The shift toward online learning continues with more registrants viewing programs by live webcast or on demand. Starting in 2016, CPD is paperless for live programs and hardcopies of material are only published for select programs. Registrations are analyzed below:

Registration (all formats)	2016	2015
Paid programs	39,390	42,032
Nominal fee programs	10,538	10,997
Free programs	4,116	563
Total number of registrants	54,044	53,592

#### *Other Revenue*

Other Revenue of \$8.8 million (2015 - \$7.6 million) primarily comprises income from Ontario Reports, administrative fees, monitoring and enforcement recoveries and catering.

### **Expenses**

#### *Professional Regulation, Tribunals and Compliance*

Total regulatory expenses have increased slightly to \$28.6 million (2015 - \$28.2 million) and are under budget. The biggest variable in this category is typically spending on outside counsel and expert witnesses which were

under budget and there were savings in adjudication costs. However during the year there were unbudgeted costs awarded against the Society arising out of regulatory proceedings which had an impact of nearly \$900,000 in the current year.

The processing of files through the Intake, Complaints, Investigations and Discipline departments comprise a significant part of regulatory resources. Complaint trends have fluctuated in a fairly narrow band in recent years although typical investigations are requiring increased resources for initiatives such as liaising with police and an increased focus on indigenous, refugee and mental health cases. This was confirmed in the CEO's operational review of the department leading to an increase in the number of staff in Investigations.

#### *Professional Development & Competence*

Total PD&C expenses have increased to \$27.1 million (2015 - \$25.5 million) and were nominally under budget. Staff were added for initiatives such as the expansion of paralegal licensing exams and servicing the large increase in requests for special accommodations during licensing exams such as rooms, proctors and software. As approved as part of the Mentoring Task Force Report in January 2016, the new Coach and Advisor Network has been a significant focus of attention in the Practice Supports and Resources department.

The movement toward online CPD program delivery and materials provision noted in the revenue discussion also provides savings in program expenses, including catering costs, course materials and venue rentals although these savings have been slightly offset by general cost increases in other areas.

#### *Corporate Services*

Corporate Services expenses, primarily comprising the Client Service Centre, Information Systems, Facilities, Finance and Human Resources, were relatively static at \$24 million (2015 - \$23.8 million) and were under budget.

#### *Convocation, Policy and Outreach*

Convocation, policy and outreach expenses primarily comprises Policy, Equity & Public Affairs and benchers expenses decreased to \$8.3 million (2015 - \$8.8 million) and were under budget. Included in Convocation, policy and outreach expenses are payments to benchers during the year. In respect of remuneration, these payments totalled \$756,000 (2015 - \$843,000) and in respect of expense reimbursements, these payments totalled \$506,000 (2015 - \$563,000).

### **Changes in Fund Balances**

#### *General Fund*

Results for the year means the lawyer General Fund has increased by \$2.2 million to \$23.6 million. Convocation's fund balance policy requires a minimum of two months and a maximum of three months operating expenses be maintained in the lawyer General Fund balance or between \$17 million and \$26 million.

Results for the year means the paralegal General Fund has increased by \$1.2 million. The paralegal General Fund balance is now \$5.1 million. Because of the relatively short history of paralegal regulation there is no formal fund balance policy for the paralegal General Fund.

### *Restricted Funds*

In 2016, the lawyer Compensation Fund deficit for the year amounted to \$2.1 million reducing the Compensation Fund balance for lawyers to \$12.8 million. The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 99.5th percentile aggregate claim scenarios (one-in-two-hundred-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred year event) or between \$13 million and \$47 million.

In 2016, the Compensation Fund balance for paralegals increased to \$597,000 after the surplus for the year of \$156,000. Because of the relatively short history of paralegal regulation there is no formal fund balance policy for the paralegal Compensation Fund.

## **Balance Sheet**

### *Investment in Subsidiaries*

Investment in subsidiaries comprises the Society's investments in LibraryCo and LAWPRO recorded at cost. The Society owns all the common shares of LibraryCo at a cost of \$100. The LAWPRO investment is made up of two parts: the cost of the acquired share capital of \$4,997,000 plus contributed capital of \$30,645,000.

### *Portfolio Investments*

Portfolio investments are shown at fair value of \$68.1 million (2015 - \$66 million) with investment returns offsetting a small capital transfer from the E&O Fund portfolio. Investments comprise Canadian equities (20%) and Canadian fixed income investments (80%).

### *Provision for Unpaid Grants*

The Compensation Fund provision for unpaid grants (that is, the amount reserved) has increased to \$23 million (2015 - \$19.7 million). The provision for unpaid grants in the Compensation Fund represents the estimate for unpaid claims and inquiries against the Compensation Fund, supplemented by the costs for processing these claims. The relatively large provision compared to much of the historical data continues to be attributable to some large alleged defalcations on the part of certain licensees. The Compensation Fund describes a major defalcation as being over 35 claims arising from the conduct of one licensee. Most of these claims are still being evaluated and in some instances related investigations are still ongoing. Based on the advice of the actuary, however, the Fund balance remains sufficient to absorb the potential exposure. The paralegal Compensation Fund provision for unpaid grants comprises \$197,000 (2015 - \$136,000) of the total Compensation Fund provision for unpaid grants.

### *Unclaimed Trust Funds*

Unclaimed trust funds continue to increase, now totalling \$5.1 million (2015 - \$4.2 million). These are trust monies turned over to the Society by lawyers who are unable to locate or identify the clients to whom the monies are owed.

## **Restricted Funds**

### *Compensation Fund*

The Lawyer Compensation Fund is reporting a deficit of \$2.1 million (2015 - \$713,000 deficit). The lawyer Compensation Fund annual fee income increased to \$9.9 million (2015 - \$8.6 million) in line with the increase

in the levy from \$225 to \$254 per lawyer to assist in complying with the Fund Balance Management Policy described in the notes to the financial statements and above. Lawyer Compensation Fund expenses have increased to \$14.2 million (2015 - \$9.3 million) based on the claims experience.

The paralegal fund is reporting a surplus of \$156,000 (2015 – \$15,000 surplus). The paralegal Compensation Fund annual fee income rose to \$726,000 from \$612,000.

#### *Errors & Omissions Insurance Fund*

The fund is reporting a surplus of \$1.2 million (2015 - \$2.5 million deficit) attributable to the investment income for the year with premiums recovered (\$110.6 million) equaling premiums incurred. LAWPRO's base premium of \$3,350 has not changed from 2015 with the increase in the number of insured lawyers offsetting the reduction in transaction levies.

### **Conclusion**

The Law Society's strategic plan is built on the Law Society's mission, mandate and principles for governance found in the Law Society Act. The priorities established are to:

- Lead as a professional regulator;
- Prioritize life-long competence for lawyers and paralegals;
- Enhance access to justice across Ontario;
- Engage stakeholders and the public with responsive communications and
- Increase organizational effectiveness.

The Society is in a financially sound position to implement this strategic plan and is well placed for the future.



April 27, 2017

**Independent Auditor's Report  
To the Members of  
The Law Society of Upper Canada**

We have audited the accompanying financial statements of The Law Society of Upper Canada, which comprise the balance sheet as at December 31, 2016 and the statements of revenue and expenses and change in fund balances and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Law Society of Upper Canada as at December 31, 2016 and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

*PricewaterhouseCoopers LLP*

**Chartered Professional Accountants, Licensed Public Accountants**



**THE LAW SOCIETY OF UPPER CANADA**

**Balance Sheet**

*Stated in thousands of dollars*

*As at December 31*

	2016	2015
<b>Assets</b>		
<b>Current Assets</b>		
Cash	27,174	25,932
Short-term investments	26,706	22,990
Accounts receivable (notes 4, 5 and 8)	10,222	8,295
Prepaid expenses	2,573	1,958
<b>Total current assets</b>	<b>66,675</b>	<b>59,175</b>
Investment in subsidiaries (note 4)	35,642	35,642
Portfolio investments (note 6)	68,136	66,021
Capital assets (note 7)	8,982	10,166
Intangible assets (note 7)	729	1,019
<b>Total Assets</b>	<b>180,164</b>	<b>172,023</b>
<b>Liabilities and Fund Balances</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (note 8)	13,423	11,544
Deferred revenue	15,783	15,271
Due to LAWPRO (note 4)	7,962	7,569
<b>Total current liabilities</b>	<b>37,168</b>	<b>34,384</b>
Provision for unpaid grants/claims	22,994	19,652
Unclaimed trust funds (note 9)	5,121	4,226
<b>Total Liabilities</b>	<b>65,283</b>	<b>58,262</b>
<b>Fund Balances</b>		
<b>General funds</b>		
Lawyers	23,602	21,407
Paralegals	5,065	3,866
<b>Restricted funds (note 18)</b>		
Compensation – lawyers	12,825	14,905
Compensation – paralegals	597	441
Errors and omissions insurance	55,584	54,342
Capital allocation	6,529	6,716
Invested in capital and intangible assets	9,711	11,185
Other	968	899
<b>Total Fund Balances</b>	<b>114,881</b>	<b>113,761</b>
<b>Total Liabilities and Fund Balances</b>	<b>180,164</b>	<b>172,023</b>

*See accompanying notes*

*On behalf of Convocation*

*Treasurer*

*Chair, Audit & Finance Committee*




THE LAW SOCIETY OF UPPER CANADA

Statement of Revenues and Expenses and Change in Fund Balances

Stated in thousands of dollars

For the year ended December 31

	2016	2015	2016	2015	2016	2015	2016	2015
	General Fund Lawyer		General Fund Paralegal		Restricted Funds (note 18)		Total	
<b>Revenues</b>								
Annual fees	52,889	51,380	4,249	4,039	20,540	20,191	77,678	75,610
Insurance premiums and levies	-	-	-	-	110,617	113,103	110,617	113,103
Professional development and competence	18,563	18,360	3,150	3,081	-	-	21,713	21,441
Investment income	560	624	53	59	1,272	1,544	1,885	2,227
Change in fair value of investments	470	(424)	44	(40)	1,701	(1,612)	2,215	(2,076)
Other (note 11)	7,254	6,826	834	824	673	(56)	8,761	7,594
<b>Total revenues</b>	<b>79,736</b>	<b>76,766</b>	<b>8,330</b>	<b>7,963</b>	<b>134,803</b>	<b>133,170</b>	<b>222,869</b>	<b>217,899</b>
<b>Expenses</b>								
Professional regulation, tribunals and compliance	26,166	25,783	2,478	2,389	-	-	28,644	28,172
Professional development and competence	24,800	23,199	2,343	2,310	-	-	27,143	25,509
Corporate services	21,915	21,708	2,086	2,063	-	-	24,001	23,771
Convocation, policy and outreach (note 12)	7,715	8,105	626	671	-	-	8,341	8,776
Services to members and public	3,937	3,806	225	220	-	-	4,162	4,026
Allocated to Compensation Fund	(7,401)	(7,246)	(627)	(582)	-	-	(8,028)	(7,828)
Restricted (note 18)	-	-	-	-	137,486	139,314	137,486	139,314
<b>Total expenses</b>	<b>77,132</b>	<b>75,355</b>	<b>7,131</b>	<b>7,071</b>	<b>137,486</b>	<b>139,314</b>	<b>221,749</b>	<b>221,740</b>
<b>Surplus (Deficit)</b>	<b>2,604</b>	<b>1,411</b>	<b>1,199</b>	<b>892</b>	<b>(2,683)</b>	<b>(6,144)</b>	<b>1,120</b>	<b>(3,841)</b>
<b>Fund balances, beginning of year</b>	<b>21,407</b>	<b>18,507</b>	<b>3,866</b>	<b>2,974</b>	<b>88,488</b>	<b>96,121</b>	<b>113,761</b>	<b>117,602</b>
<b>Interfund transfers (notes 2 and 13)</b>	<b>(409)</b>	<b>1,489</b>	<b>-</b>	<b>-</b>	<b>409</b>	<b>(1,489)</b>	<b>-</b>	<b>-</b>
<b>Fund balances, end of year</b>	<b>23,602</b>	<b>21,407</b>	<b>5,065</b>	<b>3,866</b>	<b>86,214</b>	<b>88,488</b>	<b>114,881</b>	<b>113,761</b>

See accompanying notes

**THE LAW SOCIETY OF UPPER CANADA**

**Statement of Cash Flows**

*Stated in thousands of dollars*

*For the year ended December 31*

	2016	2015
<b>Net inflow of cash related to the following activities</b>		
<b>Operating</b>		
Surplus	1,120	(3,841)
Items not affecting cash:		
Increase (decrease) in provision for unpaid grants	3,342	(1,781)
Amortization of capital assets	2,357	2,978
Amortization of intangible assets	696	719
Loss on disposal of capital assets	57	273
	7,572	(1,652)
Net change in non-cash operating items:		
Accounts receivable	(1,927)	(5,301)
Prepaid expenses	(615)	183
Accounts payable and accrued liabilities	1,879	906
Due to LAWPRO	393	935
Deferred revenue	512	3,843
Fund contribution - unclaimed trusts	895	514
<b>Cash from operating activities</b>	<b>8,709</b>	<b>(572)</b>
<b>Investing</b>		
Portfolio investments - net	(2,115)	12,379
Short-term investments - net	(3,716)	(2,710)
Capital and intangible asset additions	(1,636)	(2,606)
<b>Cash from investing activities</b>	<b>(7,467)</b>	<b>7,063</b>
<b>Net inflow of cash, during the year</b>	<b>1,242</b>	<b>6,491</b>
Cash, beginning of year	25,932	19,441
<b>Cash, end of year</b>	<b>27,174</b>	<b>25,932</b>

*See accompanying notes*

## **THE LAW SOCIETY OF UPPER CANADA**

### **Notes to Financial Statements, December 31, 2016**

Stated in whole dollars except where indicated

#### **1. Background**

The Law Society of Upper Canada (the “Society”) was founded in 1797 and incorporated in 1822 with the enactment of the Law Society Act.

The Law Society Act, section 4.1, states that it is a function of the Society to ensure that:

- All persons who practise law in Ontario or provide legal services in Ontario meet standards of learning, professional competence and professional conduct that are appropriate for the legal services they provide; and
- The standards of learning, professional competence and professional conduct for the provision of a particular legal service in a particular area of law apply equally to persons who practise law in Ontario and persons who provide legal services in Ontario.

In carrying out its functions, duties and powers, the Society, pursuant to section 4.2 of the Law Society Act, shall have regard to the following principles:

- The Society has a duty to maintain and advance the cause of justice and the rule of law;
- The Society has a duty to act so as to facilitate access to justice for the people of Ontario;
- The Society has a duty to protect the public interest;
- The Society has a duty to act in a timely, open and efficient manner;
- Standards of learning, professional competence and professional conduct for members and restrictions on who may provide particular legal services should be proportionate to the significance of the regulatory objectives sought to be realized.

The governing body of the Society, which is known as Convocation, carries out this mandate. Convocation comprises benchers and the Treasurer who presides over Convocation.

At December 31, 2016, the total number of lawyers and paralegals entitled to provide legal services in Ontario were 51,000 and 8,000 respectively. The primary sources of revenues are member annual fees and insurance premiums and levies, set by Convocation, based on the financial requirements of the Society.

The Society is not subject to federal or provincial income taxes.

#### **2. Nature of Financial Statements**

These financial statements present the financial position and operations of the Society and include the General Fund and a number of special purpose funds restricted by the Law Society Act or Convocation.

##### ***Subsidiaries and Related Corporation***

The Society has two wholly-owned subsidiaries: Lawyers’ Professional Indemnity Company (“LAWPRO”), and LibraryCo Inc. (“LibraryCo”) and a related corporation, the Law Society Foundation. These entities have not

been consolidated or included in the Society's financial statements apart from the information in Notes 4 and 5. The audited annual financial statements for these three entities are available separately.

### ***General Fund***

The General Fund accounts for the Society's program delivery and administrative activities related to the regulation and licensing of lawyers and paralegals. This fund reports unrestricted resources. At December 31, 2016, the lawyer fund balance was \$23,602,000 (2015 – \$21,407,000). The paralegal fund balance was \$5,065,000 (2015 – \$3,866,000).

The Society's policy is to maintain the General Fund balance at no less than two and no more than three months of General Fund budgeted expenses.

If the General Fund balance exceeds three months of budgeted General Fund expenses, Convocation shall utilize the excess for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

If the General Fund balance is less than two months of budgeted General Fund expenses, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the General Fund balance is more than two months of budgeted General Fund expenses and less than three months of budgeted General Fund expenses, Convocation may appropriate funds from the General Fund Balance for one or more of the following:

- Mitigate the General Fund levy for the next fiscal year;
- Transfer the excess to another Law Society fund if the fund balance is below its stated policy benchmark.

### ***Restricted Funds***

#### ***Compensation Fund***

The Society maintains the Compensation Fund pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of a member, in connection with the member's professional business or in connection with any trust of which the member was a trustee. The Compensation Fund is restricted in use by the Law Society Act.

Pursuant to the Law Society Act, the Compensation Fund is supported by members' annual fees, investment income and recoveries. The Compensation Fund accounts for program delivery, administration and payment of grants and has separate fund balances for lawyer members and paralegal members.

The Society's policy is to maintain the Lawyer Compensation Fund balance at an amount sufficient to provide for a minimum of one 99.5th percentile aggregate claim scenarios (one-in-two-hundred-year event) and a maximum of four 99th percentile aggregate claim scenarios (one-in-one-hundred year event). The estimated amount of aggregate claims is to be actuarially reviewed at least every three years.

If the Lawyer Compensation Fund balance exceeds four one-in-one-hundred-year events, Convocation shall utilize some or all of the excess for the following:

- Mitigation of the Lawyer Compensation Fund levy for the next fiscal year or;
- Annual mitigation of the Lawyer Compensation Fund levy shall continue such that within the next three fiscal years, the maximum benchmark shall be achieved.

If the Lawyer Compensation Fund balance is less than a one one-in-two-hundred-year event, Convocation shall budget for an annual surplus to restore the fund balance to its minimum policy objective. The minimum policy benchmark should be restored within three fiscal periods.

If the Lawyer Compensation Fund balance is more than a one one-in-two-hundred-year event and less than four one-in-one-hundred-year events Convocation may:

- Mitigate the Lawyer Compensation Fund levy for the next fiscal year or;
- Budget for a surplus sufficient to increase the fund balance to its maximum policy objective of four one-in-one-hundred-year events or;
- Leave the fund balance at its current balance for the upcoming fiscal year.

The General Fund allocates the full cost of its spot audit program, 25% of investigation expenses and 6% of discipline expenses to the Compensation Fund. In addition, administrative expenses are allocated from the General Fund in proportion to the Fund's operating budget. In 2016, the total allocated costs amounted to \$8,028,000 (2015 – \$7,828,000).

At December 31, 2016, the lawyer share of the fund balance was \$12,825,000 (2015 – \$14,905,000) and the paralegal share of the fund balance was \$597,000 (2015 – \$441,000).

#### ***Errors and Omissions Insurance Fund***

The Errors and Omissions Insurance Fund ("E&O Fund") accounts for insurance-related transactions between LAWPRO, the Society and insured lawyers. The E&O Fund collects premiums and levies from lawyers, reported as revenues, and remits these amounts to LAWPRO, reported as expenses.

Pursuant to section 61 of the Law Society Act, the Society arranges mandatory professional liability insurance for practising lawyers with LAWPRO, and through the E&O Fund, levies the insured lawyers. Each year, the premium for the insurance program is established through a process whereby LAWPRO provides an offer for review and acceptance by Convocation. The offer provides details on the components of the insurance program, including anticipated base premiums, claims history levies, transaction-based levies and amounts to be drawn from the E&O Fund balance. In 2016, no funds (2015 - \$2.5 million) were drawn from the available surplus in the E&O Fund built up in prior years to be applied to the insurance premium.

There is a retrospective premium provision under the insurance policy between the Society and LAWPRO. To the extent underwriting results vary from the approved program, additional premiums are charged. Under these provisions, LAWPRO made no retrospective premium assessment in 2016 and 2015.

At December 31, 2016, the E&O Fund balance was \$55,584,000 (2015 – \$54,342,000) of which \$35,642,000 (2015 – \$35,642,000) comprises the Society's investment in LAWPRO.

### ***Capital Allocation Fund***

The Capital Allocation Fund is maintained to provide a source of funds for the acquisition and maintenance of the Society's capital and intangible assets. These include buildings and major equipment including computers and software. Amounts of assets capitalized, according to the Society's capital asset policy, are transferred to the Invested in Capital and Intangible Assets Fund. Expenditures not capitalized are expended in the Capital Allocation Fund. At December 31, 2016, the balance was \$6,529,000 (2015 – \$6,716,000).

### ***Invested in Capital and Intangible Assets Fund***

The Invested in Capital and Intangible Assets Fund records transactions related to the Society's capital assets and intangible assets specifically acquisitions, amortization and disposals. At December 31, 2016, the balance was \$9,711,000 (2015 – \$11,185,000), representing the net book value of the Society's capital and intangible assets.

### ***County Libraries Fund***

The County Libraries Fund records transactions related to the Society's support of county law libraries. As approved by Convocation, the fund accumulates funds for county library purposes which are remitted to LibraryCo. The fund balance at December 31, 2016 and 2015 was \$nil.

### ***Other Restricted Funds***

The Repayable Allowance Fund provides loans for tuition and living expenses to candidates in the lawyer licensing process. At December 31, 2016, the balance was \$94,000 (2015 – \$188,000).

The Special Projects Fund is maintained to ensure that financing is available for ongoing special projects approved by Convocation. The balance at December 31, 2016 was \$417,000 (2015 – \$275,000).

The Parental Leave Assistance Fund accounts for the delivery of the Parental Leave Assistance Program ("PLAP") and is funded by lawyers' fees. The PLAP provides financial assistance to lawyers in firms of five lawyers or fewer who have a net annual practice income of less than \$50,000 and who do not have access to any other parental leave financial benefits. Under the program, the Society provides a fixed sum of \$750 a week to eligible applicants for up to 12 weeks to cover expenses associated with maintaining their practice during a maternity, parental or adoption leave. At December 31, 2016, the Fund balance was \$457,000 (2015 – \$436,000).

## **3. Significant Accounting Policies**

### ***Basis of presentation***

The financial statements have been prepared in accordance with the accounting standards for not-for-profit organizations set out in Part III of the Chartered Professional Accountants of Canada Handbook – Accounting.

### ***Financial instruments***

The Society's financial assets and financial liabilities are measured at fair value on the original date of the transaction and then subsequently measured as follows:

<b>Asset / Liability</b>	<b>Measurement</b>
Cash	Fair value
Short-term investments	Fair value
Accounts receivable	Amortized cost
Portfolio investments	Fair value
Accounts payable and accrued liabilities	Amortized cost
Unclaimed trust funds	Amortized cost

Investments in subsidiaries are reported at cost.

The fair value of portfolio investments is determined by reference to transactional net asset values for the fixed income and Canadian equity pooled funds. Transaction costs are expensed as incurred. The fair value of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities and unclaimed trust funds approximate their carrying values due to their nature or capacity for prompt liquidation.

There has been no change in risk exposures from the previous period.

### ***Interest rate risk***

The risk that the fair value of financial instruments will fluctuate due to changes in market interest rates is managed through compliance with the Society's investment policy. The normal duration range for the bond portfolio administered under the policy is between 1 and 5 years. The Society has no interest-bearing liabilities.

Fluctuations in interest rates do not have a significant effect on cash and short-term investments of the Society.

### ***Market risk***

The risk that the fair value of financial instruments will fluctuate due to changes in market prices is managed through compliance with the Society's investment policy which requires a diversified portfolio of government bonds, corporate bonds and Canadian equities meeting specified quality requirements.

### ***Credit risk***

Credit risk is the possibility that other parties may default on their financial obligations. At year end, the maximum exposure of the Society to credit risk in cash and short and long-term fixed income investments was \$108,714,000 (2015 – \$102,256,000). In compliance with the Society's investment policy, fixed income investments are in the financial obligations of governments, major financial institutions and commercial paper with investment grade ratings.

At year end, the maximum exposure of the Society to credit risk in accounts receivable was \$10,222,000 (2015 – \$8,295,000). This credit risk is minimized by the credit quality and a diverse debtor base. The Society maintains an allowance for potential credit losses.



***Liquidity risk***

Liquidity risk is the risk that the Society will not be able to fund its obligations as they come due, including being unable to liquidate assets in a timely manner at a reasonable price. The Society monitors forecasts of cash flows from operations and investments and holds investments that can readily be converted into cash. Investment income is not a primary source of revenue for the Society and all underlying long-term securities are publicly listed.

The Society has not entered into any derivative transactions. In addition, the Society's contractual arrangements do not have any embedded features.

***Cash and short-term investments***

Cash (bank balances) and short-term investments (less than one year) are amounts on deposit and invested in short-term investment vehicles according to the Society's investment policy.

***Portfolio investments***

Portfolio investments are recorded at fair value. The Society manages financial risk associated with portfolio investments in accordance with its investment policy. The primary objective of the investment policy is to preserve and enhance the real capital base. The secondary objective is to generate investment returns to assist the Society in funding its programs. Convocation monitors compliance with the investment policy and regularly reviews the policy.

***Capital assets***

Capital assets are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings	30 years
Building and leasehold improvements	Lesser of 10 years or term of lease
Furniture, equipment and computer hardware	3 to 5 years

***Intangible assets***

Intangible assets comprising computer software are presented at cost net of accumulated amortization. Amortization is charged to expenses on a straight-line basis over three years.

***Revenue recognition***

Annual member fees, insurance premiums and levies are set annually by Convocation and are recognized in the year to which they relate if the amount can be reasonably estimated and collection is reasonably assured. Accordingly, fees for the next fiscal year received prior to December 31 have been deferred and are recognized as revenue in the next year. Insurance premiums related to the unexpired term of coverage at the balance sheet date are reported as deferred revenue.

Professional development & competence, and other revenues and realized investment income/losses are recognized when receivable if the amount can be reasonably estimated. Unrealized investment gains/losses are recognized with changes in the fair value of financial instruments.

Fees and insurance premiums receivable are recorded as accounts receivable on the balance sheet, net of any required provision for doubtful amounts.

### ***Provision for unpaid grants***

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Compensation Fund is at the discretion of Convocation. Grants paid from the lawyer pool of the Compensation Fund are subject to a limit per claimant of \$150,000 for claims incurred before September 22, 2016 and \$500,000 thereafter. Grants paid from the paralegal pool of the Compensation Fund are subject to a \$10,000 limit per claimant. The Compensation Fund expense represents a provision for unpaid grants, administrative expenses and expenses allocated from the General Fund.

Provisions for unpaid grants are recorded as liabilities on the balance sheet. The measurement of the ultimate settlement costs of claims made to date that underlies the provision for unpaid grants involves estimates and measurement uncertainty. Ultimate costs incurred could vary from current estimates. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the methods of estimation that have been used will produce reasonable results given the current information. These provisions represent an estimate of the present value of grants to be paid for claims and the associated administrative costs net of recoveries. Grant liabilities are carried on a discounted basis using the yield of the underlying assets backing the grant liabilities with a provision for adverse deviation. The discount rate is 1.44% (2015 – 1.53%).

### ***Collections***

The Society owns a collection of legal research and reference material as well as a collection of portraits and sculptures. The cost of additions to the collections is expensed as incurred. No value is recorded in these financial statements for donated items. There have not been any significant changes to the collections in the current year.

### ***Volunteer services***

Convocation, consisting of the Treasurer and benchers, governs the Society. Benchers may be elected by lawyers, paralegals, appointed by the provincial government, have ex-officio status by virtue of their office or past service as elected benchers or Treasurers, or qualify as emeritus benchers.

Elected and ex-officio benchers are only eligible for remuneration after contributing 26 days of voluntary time. The work of the Society is also dependent on other voluntary services by lawyers and paralegals. No value has been included in these financial statements for volunteer services.

### ***Measurement uncertainty***

The preparation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingencies at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The valuation of liabilities, unpaid grants and unpaid claims anticipates the combined outcomes of events that are yet to occur. There is uncertainty inherent in any such estimation and therefore a limitation upon the accuracy of these valuations. Future loss emergence may deviate from these estimates.

#### 4. Investment in Subsidiaries

Investment in the Society's subsidiaries is recorded at cost:

	2016	2015
LAWPRO	35,642,000	35,642,000
LibraryCo	100	100
Total investment in subsidiaries	35,642,100	35,642,100

##### **LAWPRO**

The Society provides mandatory professional liability insurance to lawyers through LAWPRO, a provincially licensed insurer and wholly-owned subsidiary of the Society.

The professional liability insurance program generally requires practising lawyers to pay premiums and levies to the E&O Fund that contribute toward the premium paid by the Society to fund the anticipated costs of professional liability claims made in each annual policy period.

Paralegals obtain this form of coverage through independent insurance companies. In addition to providing mandatory lawyers professional liability insurance, LAWPRO also sells optional excess lawyers professional liability and title insurance.

The \$5,000,000 in capital stock of LAWPRO comprises 30,000 common shares of par value of \$100 each and 20,000 6% non-cumulative, redeemable, non-voting preferred shares of par value of \$100 each. In the period from 1995 to 1997, the Society transferred a net amount of \$30,600,000 in capitalization funding as contributed surplus to LAWPRO.

Summarized balance sheet of LAWPRO:

(\$000's)	2016	2015
Total assets	730,717	702,982
Total liabilities	477,251	464,929
Total shareholder's equity	253,466	238,053
Total liabilities and shareholder's equity	730,717	702,982

Summarized statement of income of LAWPRO for the year ended December 31:

(\$000's)	2016	2015
Revenue	<b>134,906</b>	141,039
Expenses	<b>123,428</b>	102,580
Income before taxes	<b>11,478</b>	38,459
Income tax expense	<b>2,839</b>	10,015
Net income	<b>8,639</b>	28,444
Other comprehensive income net of tax	<b>6,774</b>	984
Comprehensive income	<b>15,413</b>	29,428

Summarized statement of cash flows of LAWPRO for the year ended December 31:

(\$000's)	2016	2015
Net cash inflow from operating activities	<b>18,619</b>	20,263
Net cash outflow from investing activities	<b>(25,305)</b>	(14,994)
Cash and cash equivalents, beginning of year	<b>22,597</b>	17,328
Cash and cash equivalents, end of year	<b>15,911</b>	22,597

LAWPRO administers the operations of the E&O Fund at no charge, under an administrative services agreement. LAWPRO billed the Society \$110,617,000 (2015 – \$115,603,000) for premiums during the year. LAWPRO contributed \$219,000 primarily to a wellness program provided by the Society to its members (2015 - \$188,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in the Society's financial statements are amounts due to LAWPRO of \$7,962,000 (2015 – \$7,569,000).

### ***LibraryCo***

LibraryCo, a wholly-owned, not-for-profit subsidiary of the Society, was established to develop policies, procedures, guidelines and standards for the delivery of county law library services and legal information across Ontario and to administer funding on behalf of the Society. LibraryCo was incorporated under the Business Corporations Act (Ontario) in 2001. The Society holds all of the 100 common shares. Of the 100 special shares, 25 are held by the Toronto Lawyers Association ("TLA") and 75 are held by the Federation of Ontario Law Associations ("FOLA"). The Society may appoint up to four directors, FOLA may appoint up to three directors and TLA may appoint one director.

The Society levies and collects funds for county and district law library purposes and transfers these funds to LibraryCo. Convocation internally restricts these funds for use by county and district law libraries to carry out their annual operations and any special projects approved by Convocation.

Summarized balance sheet of LibraryCo:

(\$000's)	2016	2015
Total assets	775	780
Total liabilities	96	26
Total share capital and fund balances	679	754
Total liabilities, share capital and fund balances	775	780

Summarized statement of income of LibraryCo for the year ended December 31:

(\$000's)	2016	2015
Total revenue	7,667	7,702
Total expenses	7,741	7,590
(Deficit)Surplus	(74)	112

Summarized statement of cash flows of LibraryCo for the year ended December 31:

(\$000's)	2016	2015
Net cash inflow (outflow) from operating activities	(7)	185
Cash, beginning of year	328	143
Cash, end of year	321	328

The Society provided LibraryCo with a grant of \$7,662,000 (2015 - \$7,696,000) during the year. The Society provides administrative services to LibraryCo as well as certain other services and publications. The total amount billed by the Society for 2016 was \$402,000 (2015: \$502,000). These transactions are entered in the ordinary course of business and are measured at fair value. Included in accounts receivables are amounts due from LibraryCo of \$11,000 (2015 - \$6,000).

## 5. Related Corporation

The Law Society Foundation ("LSF") is regarded as a related corporation, although the Society does not have an equity interest in the LSF.

The LSF, a registered charity, was incorporated by Letters Patent in 1962. The objectives of the LSF are to foster, encourage and promote legal education in Ontario, provide financial assistance to licensing process candidates in Ontario, restore and preserve land and buildings of historical significance to Canada's legal heritage, receive gifts of muniments and legal memorabilia of interest and significance to Canada's legal heritage, maintain a collection of gifts of books and other written material for use by educational institutions in Canada, receive donations and maintain funds for the relief of poverty by providing meals to persons in need.

The Society provides facilities, administration, accounting, security and certain other services at no cost to the LSF. Trustees of the LSF are elected by the members of the LSF. Included in the Society's accounts receivable are amounts due from the LSF of \$1,000 (2015 – \$59,000).

## 6. Portfolio Investments

(\$000's)	2016	2015
Debt securities	54,833	53,335
Canadian equities	13,303	12,686
Total portfolio investments	68,136	66,021

The debt securities have effective interest rates and maturity dates as follows:

	2016	2015
Effective interest rates (%)	0.5 – 2.8	0.4 – 3.6
Maturity dates (years)	1 – 6	1 – 6

## 7. Capital Assets

(\$000's)	2016			2015
	Cost	Accumulated Amortization	Net	Net
Land and buildings	25,395	22,724	2,671	3,222
Building and leasehold improvements	25,526	19,404	6,122	6,690
Furniture, equipment and computer hardware	3,320	3,131	189	254
Total capital assets	54,241	45,259	8,982	10,166

### Intangible Assets

(\$000's)	2016			2015
	Cost	Accumulated Amortization	Net	Net
Computer software	6,613	5,884	729	1,019
Total intangible assets	6,613	5,884	729	1,019

## 8. Accounts Payable and Accrued Liabilities and Accounts Receivable

Included in accounts payable is \$427,000 in government remittances, primarily sales taxes (2015 – \$617,000).

The accounts receivable balance comprises:

(\$000's)	2016	2015
Accounts receivable	25,165	25,120
Allowance for doubtful accounts	14,943	16,825
Accounts receivable – net	10,222	8,295

The allowance for doubtful accounts mainly relates to annual fees, monitoring and enforcement and the licensing process.

## 9. Unclaimed Trust Funds

Section 59.6 of the Law Society Act permits a member who has held money in trust for, or on account of, a person for a period of at least two years, to apply in accordance with the by-laws for permission to pay the money to the Society. Money paid to the Society is held in trust in perpetuity for the purpose of satisfying the claims of the persons who are entitled to the capital amount. Subject to certain provisions in the Act enabling the Society to recover its expenses associated with maintaining these funds, net income from the money held in trust shall be paid to the Law Foundation of Ontario. Unclaimed money held in trust amounts to \$5,121,000 (2015 – \$4,226,000).

## 10. Other Trust Funds

The Society administers client funds for members under voluntary or court-ordered trusteeships. These funds and matching liabilities are not reflected on the Balance Sheet. Money paid to the Society is held in trust until it is repaid to the clients or transferred to the Unclaimed Trust Funds. At December 31, 2016, total funds held in trust amount to \$4,378,000 (2015 – \$4,942,000).

## 11. Other Revenues

Other Revenue primarily comprises income from *Ontario Reports* royalties, administrative fees, monitoring and enforcement recoveries and catering.

## 12. Other Expenses

Included in Convocation, policy and outreach expenses are payments for the remuneration of elected, ex-officio benchers and lay benchers during the year of \$756,000 (2015 – \$843,000). The total expense reimbursements of the elected, ex-officio benchers and lay benchers during the year was \$506,000 (2015 – \$563,000). The Treasurers' honorarium expense for the year was \$192,000 (2015 – \$191,000).

## 13. Interfund Transfers

During the year the following interfund transfers took place which have been approved by Convocation:

- \$1,636,000 from the Capital Allocation Fund to the Invested in Capital and Intangible Assets Fund representing assets capitalized during the year in compliance with the Society's accounting policies;

- \$100,000 from the lawyer General Fund to the Repayable Allowance Fund, as provided in the 2016 budget to fund the Repayable Allowance Program in the Licensing Process;
- \$142,000 from the lawyer General Fund to the Special Projects Fund;
- \$96,000 from the lawyer General Fund to the Capital Allocation Fund;
- \$71,000 from the lawyer General Fund to the County Libraries Fund.

#### **14. Pension Plan**

The Society maintains a defined contribution plan for all eligible employees of the Society. Each member of the plan, other than designated employees, elect to contribute matching employee and employer contributions from 1% to 6% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. Designated employees, who hold executive positions, have contributions made to the plan by the Society equivalent to 12% of annual earnings up to the maximum deduction allowed by the Canada Revenue Agency. The Society's pension expense in 2016 amounted to \$2,572,000 (2015 – \$2,521,000).

#### **15. Commitments**

The Society is committed to monthly lease payments for property under leases having various terms up to February 2028. Aggregate minimum annual payments to the expiry of the leases are approximately as follows:

2017	\$931,000
2018	\$1,776,000
2019	\$1,945,000
2020	\$2,011,000
2021	\$2,169,000
Thereafter	<u>\$15,533,000</u>
Total	\$24,365,000

In 2016, Convocation approved the Society's support for the Law Commission of Ontario's mandate for a third five year period (2017 - 2021). The Society's contribution will be \$145,000 in 2017 increasing by 2% per annum for the next four years.

#### **16. Contingent Liabilities**

A number of claims or potential claims are pending against the Society. It is not possible for the Society to predict with any certainty the outcomes of such claims or potential claims. Except as set out in the next paragraph, management is of the opinion, based on the information presently available, that it is unlikely any liability, to the extent not covered by insurance or inclusion in the financial statements, would be material to the Society's financial position.

Members failing to meet their professional and ethical obligations are subject to the Society's regulatory process. Regulatory proceedings may result in cost awards against the Society. At the end of 2016, in management's judgement, there is at least a reasonable possibility that a contingent liability relating to one or more cost awards may exist but the amount of any losses cannot be reliably estimated. From its regulatory proceedings, the Society has determined that the ultimate settlement for costs awards could range from nil to approximately \$1 million.

#### **17. Comparative figures**

Certain of the prior year balances have been reclassified to conform to the current year presentation.



## 18. Restricted Funds

A schedule of Restricted Funds is set out below.

2016										2015
	Compensation Fund		Errors and omissions insurance	Capital allocation	Invested in capital and intangible assets	County libraries	Other restricted	Total Restricted funds	Total	
	Lawyer	Paralegal								
<b>Fund balances, beginning of year</b>	<b>14,905</b>	<b>441</b>	<b>54,342</b>	<b>6,716</b>	<b>11,185</b>	-	<b>899</b>	<b>88,488</b>	<b>96,121</b>	
<b>Revenues</b>										
Annual fees	9,939	726	-	2,084	-	7,591	200	20,540	20,191	
Insurance premiums and levies	-	-	110,617	-	-	-	-	110,617	113,103	
Investment income	731	69	472	-	-	-	-	1,272	1,544	
Change in fair value of investments	916	87	698	-	-	-	-	1,701	(1,612)	
Other	548	52	-	130	(57)	-	-	673	(56)	
<b>Total revenues</b>	<b>12,134</b>	<b>934</b>	<b>111,787</b>	<b>2,214</b>	<b>(57)</b>	<b>7,591</b>	<b>200</b>	<b>134,803</b>	<b>133,170</b>	
<b>Expenses</b>										
Allocated expenses	7,401	627	-	-	-	-	-	8,028	7,828	
Direct expenses	6,813	151	110,545	861	3,053	7,662	373	129,458	131,486	
<b>Total expenses</b>	<b>14,214</b>	<b>778</b>	<b>110,545</b>	<b>861</b>	<b>3,053</b>	<b>7,662</b>	<b>373</b>	<b>137,486</b>	<b>139,314</b>	
<b>(Deficit) Surplus</b>	<b>(2,080)</b>	<b>156</b>	<b>1,242</b>	<b>1,353</b>	<b>(3,110)</b>	<b>(71)</b>	<b>(173)</b>	<b>(2,683)</b>	<b>(6,144)</b>	
<b>Interfund transfers</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,540)</b>	<b>1,636</b>	<b>71</b>	<b>242</b>	<b>409</b>	<b>(1,489)</b>	
<b>Fund balances, end of year</b>	<b>12,825</b>	<b>597</b>	<b>55,584</b>	<b>6,529</b>	<b>9,711</b>	<b>-</b>	<b>968</b>	<b>86,214</b>	<b>88,488</b>	

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